

BUDGET TALKING POINTS

February 12, 2001

Summary

The Bush tax cuts jeopardize the Social Security and Medicare surpluses because:

- ***Honoring existing commitments, especially to the solvency of Social Security and Medicare, will mean that the surplus realistically available for tax cuts and new programs over the next ten years is \$2.1 trillion, not \$5.6 trillion.***
- ***CBO believes this year's budget projections are unusually uncertain.***
- ***The true cost of the Bush tax cut is \$2.4 trillion, and it is likely to become even larger.***

CBO SURPLUS ESTIMATES: LESS THAN MEETS THE EYE

2002-2011

Total (Unified) Surplus **\$5.6 trillion**

Less:

Social Security Surplus \$2.5 trillion

Medicare Surplus \$0.4 trillion

Equals: Non-Social Security, Non-Medicare Surplus **\$2.7 trillion**

Less: Extend Expiring Tax Provisions \$0.1 trillion

Defense Increases 0.5 Percent Above Inflation \$0.1 trillion

Lowest Realistic Republican Appropriations Increases \$0.2 trillion

Natural Disasters and Continuing Farm Aid \$0.1 trillion

Additional Debt Service on Items Above \$0.1 trillion

Surplus Realistically Available for Tax Cuts and Spending Initiatives **\$2.1 trillion**

- **CBO's projected \$5.6 trillion surplus shrinks to \$2.1 trillion once one accounts for existing obligations, especially Social Security and Medicare.**
- **Both the Social Security and Medicare surpluses should be saved.** Social Security and Medicare will need those surpluses, and more, to meet future challenges. The first Baby Boomers retire in 2008. GAO's Comptroller General David Walker has warned for this reason that, "It is important to remember, however, that while projections for the next ten-year period look better, the long-term outlook looks worse."
- **Current law calls for several popular tax preferences to expire.** These provisions have always been renewed.
- **Many Members of both parties have argued that defense spending should increase faster than inflation.** If it grows just 0.5 percent faster, that costs \$0.1 trillion.
- **Some domestic appropriations will grow with population.** For instance, if Head Start funding grows only with inflation, the program will serve a declining percentage of eligible children. It will cost an additional \$0.2 trillion even if domestic programs grow somewhat slower than the population.
- **Surplus projections assume no natural disasters or additional farm aid.** We don't know when earthquakes, wildfires, floods, and hurricanes will occur, but surely they will occur during the next decade.
- **Paying for the items above means less debt reduction and higher interest costs.**

BUDGET PROJECTIONS ARE HIGHLY UNCERTAIN

- **CBO emphasizes that budget projections are highly uncertain.** If forecasting errors are no larger than in the past, there is a 50 percent chance that the estimate of next year's surplus will be off by at least \$97 billion. We can have 95 percent confidence only that, outside of Social Security and Medicare, the 2006 budget will be between a \$281 billion deficit and a \$752 billion surplus. Long-range budget forecasts are about as reliable as long-range weather forecasts.
- **CBO says that its current budget projections may be subject to even greater error than in the past.** In the short term, CBO notes that we do not know either the extent or duration of the current slowdown. CBO goes on to say, "The longer-term outlook is also unusually hard to discern at present."
- **CBO's uncertainty about sustaining rapid long-term growth entails significant risks.** CBO's assumption of sustained strong growth means that more than 70 percent of the surplus outside of Social Security and Medicare appears in the second five years of the ten-year projection. Thus, the biggest projected surpluses occur in the years subject to the greatest uncertainty.
- **CBO's ten-year projection of economic growth is based on five years of data.** CBO assumes that productivity will grow at a 2.5 percent rate over the next ten years, almost as strong as the 2.9 percent rate of the last five years. This may happen, but it would mark a sharp departure from the preceding 20 years when productivity grew at a 1.5 percent pace. If economic growth is only 0.1 percent less than assumed, the ten-year surplus declines by \$242 billion.
- **CBO calculates that there is about a one in five chance that the budget outside of Social Security and Medicare will be in deficit after 2003.** If productivity reverts to its average pace between 1973 and 1995 and health-care cost increases are only one percent higher, CBO estimates that the budget outside of Social Security and Medicare would fall back into deficit after 2003. In this case, the total surplus would be less than \$1.6 trillion, \$4.0 trillion less than the current projection of \$5.6 trillion.
- **David Walker, the Comptroller General of the General Accounting Office, concurs with CBO's cautions about the risks of long-term budget forecasting.** On February 6, Mr. Walker said, "...no one should design tax or spending policy pegged to the precise numbers in any ten-year forecast."
- **Surpluses that are larger than projected are an easier problem to fix than surpluses that turn out to be smaller than projected.** We can always choose to cut taxes in the future if we find out that we have been too cautious.

TRUE COST OF BUSH TAX CUT EXCEEDS \$2 TRILLION

2002-2011

Ten-Year Revenue Loss from Bush Tax Cut

\$1.6 trillion

Plus:

Fixing AMT and Its Interactions with Bush Tax Cut \$0.3 trillion

Retroactive Cuts for 2001 \$0.1 trillion

Additional Debt Service on Bush Tax Cut \$0.4 trillion

True Cost of Bush Tax Cut

\$2.4 trillion

- **The direct revenue loss from the Bush tax cut as proposed in the campaign is \$1.6 trillion, not \$1.3 trillion.** The \$1.3 trillion figure used in the campaign was a nine-year number that only gave the cost through 2010. Adding the cost in 2011 boosts the total to \$1.6 trillion.
- **The Bush tax cut makes existing AMT problems worse.** Fixing the existing problems with the alternative minimum tax (AMT) will cost about \$0.1 trillion. The Bush tax cut would create even more problems with the AMT, which the Joint Tax Committee estimates will cost an additional \$0.2 trillion to avoid.
- **The President wants to start the tax cut earlier, which will add to its cost.** President Bush has repeatedly advocated starting his tax cut in 2001 rather than 2002 in order to stimulate the economy. Unless he intends to take back some of the tax cuts promised for later years, this will increase the tax cut's cost by perhaps \$0.1 trillion.
- **The true cost of the Bush tax cut includes higher spending for interest on the public debt.** CBO's projections assume that the entire surplus will go to debt reduction, which dramatically reduces spending to pay interest on the debt. The additional debt service caused by the tax cut is \$0.4 trillion.
- **The size of the tax cut will surely grow.** President Bush's basic tax cut plan does not include other tax cuts he proposed for health care and education in the campaign. Also, Congress last year passed about \$0.4 trillion in cuts that do not overlap with the Bush plan. The business community has launched a major lobbying effort to include another \$0.4 trillion in corporate tax cuts in the package. Speaker Hastert admitted, "It could become larger, if that's the will of Congress."

CBO Surplus Estimate: Less Than Meets the Eye

2002-2011

Unified Surplus	\$5.6 trillion
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Surplus Excluding Social Security and Medicare	\$2.7 trillion
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Less Cost of:

Renewing Expiring Tax Provisions	\$0.1 trillion
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Defense, 0.5% Above Inflation	\$0.1 trillion
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Lowest Realistic Republican Appropriations Increases	\$0.2 trillion
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Natural Disasters and Continuing Farm Aid	\$0.1 trillion
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Additional Debt Service on Items Above	\$0.1 trillion
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Surplus Available for Tax Cuts and New Spending	\$2.1 trillion
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COST OF BUSH TAX CUT EXCEEDS \$2 TRILLION

2002-2011

Ten-Year Revenue Loss from Bush Tax Cut	\$1.6 trillion
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Plus:

Fixing AMT Interactions with Bush Tax Cut	\$0.3 trillion
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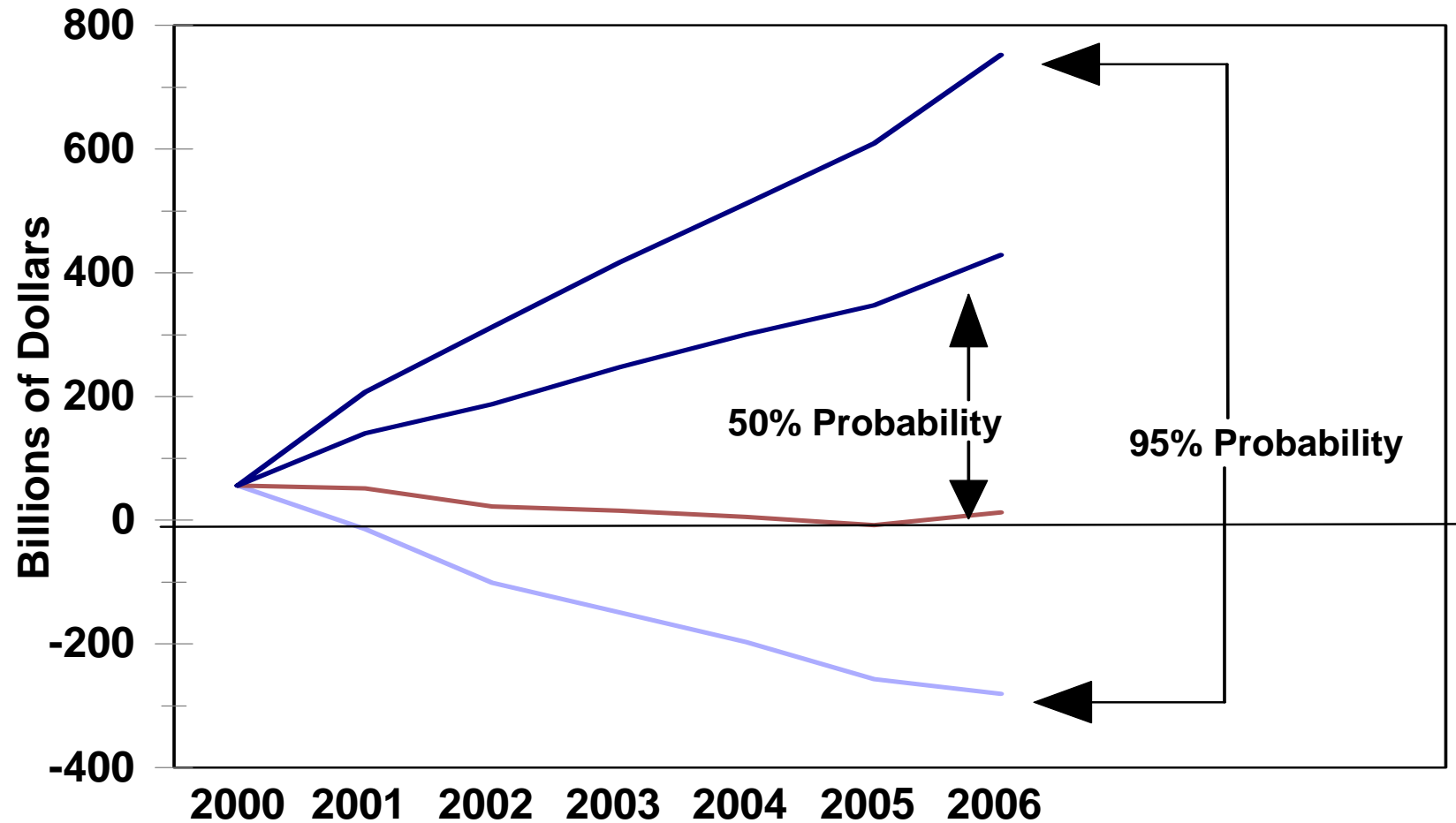
Retroactive Cuts for 2001	\$0.1 trillion
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Additional Debt Service on Bush Tax Cut	\$0.4 trillion
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True Cost of Bush Tax Cut	\$2.4 trillion
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Surplus Estimates Extremely Uncertain

Budget Excluding Soc. Sec. & Medicare



Source: Congressional Budget Office